

# EXIMIUS: EXPORT ADVANTAGE



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EXPORT-IMPORT BANK OF INDIA  
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## An Overview of CIS and Eastern Europe

The impact of the global slowdown on the region has been relatively mild, reflecting the resilience of the region, aided by strong domestic demand in Russia and Ukraine. Real GDP growth of the CIS countries stood at 6.3% in 2001. During 2002, however, notwithstanding

strengthening of external demand, GDP growth across the region is estimated to have moderated, reflecting two main factors (Table). First, slower growth in Russia and Kazakhstan due to lower oil revenues, reflecting the lagged impact of weaker oil prices in late 2001 and early 2002. Second, agriculture growth, which was very high in 2001 owing to recovery from drought in 2000, is projected to return to normal levels. However, with the exception of some countries such as Belarus and Uzbekistan, GDP growth is expected to remain relatively well sustained. At the same time, contagion from the economic crisis in Latin America has been limited, largely reflecting the low level of trade linkages between the two regions.

In Russia, fall in earnings from the energy sector may lead to cuts in investment spilling over to other sectors and countries, although recent firming of oil prices would help reduce these effects. Further, domestic demand is expected to remain supportive of economic activity, due mainly to strong private consumption and progress made with reforms. Reflecting these developments, real GDP growth is projected to firm up to 4.9% in 2003 from 4.4% in 2002. On the external front, the surplus on the current account is projected to decline from 7.0% of GDP in 2002 to 6.3% of GDP in 2003, driven by strong domestic demand and

appreciation of the rouble. In Ukraine, the current account surplus is also expected to decline from 2.6% of GDP in 2002 to 1.7% of GDP in 2003 due to slower growth in Russia, increased domestic demand and real exchange rate appreciation.

In other countries such as Armenia, Azerbaijan, Georgia, Kazakhstan, and Moldova, growth is expected to remain relatively strong, ranging from 5.0% to 7.3% in 2003, while domestic demand would remain supportive of economic activity. In contrast, growth in Belarus and Uzbekistan, is expected to lag behind others, reflecting macroeconomic instability, lack of corporate restructuring and unfavourable investment climate. In Tajikistan, however, growth is expected to remain strong owing to strong growth in agriculture and satisfactory performance in the industrial sector.

For countries in Eastern Europe and the Baltic region, in general, growth has been relatively well sustained during 2002, with further strengthening expected in 2003. However, economic conditions and prospects differ among countries. The Polish economy is relatively weak, while the Czech Republic had been affected by recent floods, as were other countries in the region to a lesser degree. Moreover, the region as a whole has not escaped the





impact of global financial market development, with equity prices having fallen significantly. Further, several countries including the Czech republic and Hungary have also experienced substantial effective exchange rate appreciations. In Central Europe and Baltic countries, while access to international finance remains strong and bond spreads are low compared with other emerging markets, most of these economies remain vulnerable to market sentiments due to their persistent high current account deficits. Regional economic activity, however, has been supported by strong FDI inflows, providing the major source of external financing and sustaining domestic demand. Stable and credible macroeconomic policies, together with market-friendly business climate have boosted FDI inflows. Increasing access to the EU market coupled with relatively low cost production bases have also provided stimulus to such inflows.

In Estonia, Latvia and Lithuania, economic activity is expected to firm up in 2003, supported by strong domestic demand and generally low inflation. Despite large FDI inflows, however, persistent high current account deficits represent a potential source of vulnerability. Estonia would need to build up public revenues, while Latvia will need to formulate a budget that targets further reduction of the fiscal deficit. Favourable economic and policy developments in Lithuania would receive further support from structural reforms directed at reforming the tax system, and improving the country's external competitiveness.

In Bulgaria and Romania, macroeconomic developments are largely on track, with growth expected

to pick up from 4.0% and 4.3% in 2002 to 5.0% and 4.9%, respectively, in 2003. However, with high external deficits, both countries will need to maintain firm fiscal stance along with efforts to restructure their economies and boost external competitiveness. In Bulgaria, priorities include moving forward with the privatisation programme, increasing labour market flexibility and improving the business environment. In Romania, high inflation, which is an area of concern, would need to be tackled through sound macroeconomic policies and wage restraint.

On the inflation front, while inflation has continued to decline across the CIS and Eastern European region, aided by progress in fiscal consolidation, it remains an area of concern in Russia and a number of other countries such as Belarus, Tajikistan, Uzbekistan and Romania. In Russia, continued current account surplus has led to monetary expansion, and the central bank will need to stand ready to absorb liquidity to contain inflationary pressures. In other countries, inflation is primarily generated by continued state interventions in the economy such as subsidies to public enterprises, thereby boosting credit and money supply growth. In many countries in the region, the inflationary impact of increasing monetary aggregates has been moderated by higher money demand, accompanied by reduction in barter transactions.

In the medium term, the main challenges for the CIS countries would be to accelerate the reform process, particularly in the area of institution building and governance. Key measures would include setting up basic market institutions, liberalisation of factor and

goods markets, enterprise restructuring, and strengthening of the financial sector. Towards this end, Russia has made significant progress in critical areas of reforms such as tax system, fiscal management, pension reform, labour law, agricultural land law, and administrative barriers to business. While progress in other CIS countries has been generally slower and implementation uneven, accelerated reforms in Russia, which plays a pivotal role in the region, would serve to accelerate reforms in these countries also. Countries in the region also face a number of challenges. In particular, many countries are heavily dependent on primary commodities which increases vulnerability to external shocks. In light of these, Kazakhstan has set up a stabilisation fund in an attempt to insulate public expenditure from swings in revenue generation, while Kazakhstan and Russia have also set up contingent expenditure plans to preserve fiscal discipline in case of shortfall in revenues. As operation of such funds/plans could prove to be difficult, economic diversification remains a priority for these countries, and would be facilitated by acceleration of reforms to improve the business climate.

For countries in Eastern Europe, while the policies needed to sustain growth differ amongst countries, fiscal restraint with supportive structural reforms remains a priority in most countries. Fiscal consolidation and restraint need to continue which, while limiting the build up of public debt, would also serve to provide scope for further easing of monetary policy to support recovery.

**Table: CIS & Eastern Europe - Real GDP Growth, Consumer Prices & Current Account Balance**

Countries	Real GDP Growth (% change)			Consumer Prices (% change)			Current Account Balance (as % of GDP)		
	2001	2002P	2003P	2001	2002P	2003P	2001	2002P	2003P
<b>CIS</b>	<b>6.3</b>	<b>4.6</b>	<b>4.9</b>	<b>19.9</b>	<b>14.6</b>	<b>10.7</b>	<b>7.5</b>	<b>4.9</b>	<b>4.3</b>
Russia	5.0	4.4	4.9	20.7	15.8	11.0	10.3	7.0	6.3
Armenia	9.6	7.5	6.0	3.2	2.8	2.8	-7.2	-8.6	-8.2
Azerbaijan	9.0	7.9	7.3	1.5	2.4	3.3	-1.3	-17.7	-30.4
Belarus	4.1	3.5	3.8	61.3	43.1	22.5	-2.2	-1.4	0.5
Georgia	4.5	3.5	4.0	4.7	5.9	5.0	-6.7	-6.2	-8.0
Kazakhstan	13.2	8.0	7.0	8.3	5.8	6.2	-6.9	-3.6	-2.5
Kyrgyz Republic	5.3	4.4	3.8	7.0	4.1	4.5	-3.3	-3.8	-5.4
Moldova	6.1	4.8	5.0	9.8	6.6	8.4	-7.4	-7.3	-7.7
Tajikistan	10.2	7.0	6.0	38.6	10.7	7.6	-7.0	-4.2	-4.6
Ukraine	9.1	4.8	5.0	12.0	5.1	9.1	3.7	2.6	1.7
Uzbekistan	4.5	2.7	3.0	27.2	23.2	13.5	-1.0	-1.1	-0.7
<b>Eastern Europe</b>									
Bulgaria	4.0	4.0	5.0	7.5	6.4	4.3	-6.1	-5.6	-5.5
Czech Republic	3.3	2.7	3.2	4.7	2.7	3.0	-4.6	-5.2	-4.6
Estonia	5.0	4.5	5.0	5.8	3.7	3.0	-6.1	-6.9	-7.4
Hungary	3.8	3.5	4.0	9.2	5.5	5.2	-2.2	-3.8	-3.7
Latvia	7.6	5.0	6.0	2.5	3.0	3.0	-10.0	-8.5	-7.5
Lithuania	5.9	4.4	4.8	1.3	1.1	2.5	-4.8	-5.9	-5.7
Poland	1.0	1.0	3.0	5.5	2.1	2.3	-4.0	-3.6	-4.2
Romania	5.3	4.3	4.9	34.5	24.2	19.1	-5.9	-5.1	-4.9
Slovak Republic	3.3	4.0	3.7	7.3	4.2	7.1	-8.6	-8.5	-7.2
Slovenia	3.0	2.5	3.2	8.4	7.7	5.5	-0.4	-0.8	-0.6

P - Projections

Source: World Economic Outlook, September 2002, IMF.

### Private Enterprise Partnership of the IFC

The Private Enterprise Partnership, created in 2000, is the technical assistance arm of the International Finance Corporation (IFC) in the former Soviet Union, and seeks to strengthen the foundation for long term economic growth in these countries through attracting private direct investment, stimulating the growth of small and medium sized enterprises (SMEs) and improving the business enabling

environment. To fulfil its objectives, the Partnership has accordingly developed four distinct programme areas, viz. building supply and distribution chains; building financial markets; improving corporate governance; and improving support services and business environment for SMEs.

Under a new arrangement with IFC, Exim Bank will support Indian consultants for projects in Central Asia and Eastern Europe under IFC's Private Enterprise Partnership (PEP). Under this

arrangement, Indian consultants, supported by Exim Bank, can execute short-term consultancy assignments for IFC sponsored projects under PEP.

The countries covered under PEP include Armenia, Azerbaijan, Belarus, Georgia, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. This new initiative is part of Exim Bank's on-going endeavour to create visibility of Indian expertise in the international arena and to assist in private sector development efforts in the region.

# PROJECT OPPORTUNITIES

## Business Opportunities Update: Upcoming Projects

Select opportunities for Indian exporters in upcoming projects around the world, funded by multilateral funding agencies such as World Bank (WB), Asian Development Bank (AsDB), African Development Bank (AfDB) and European Bank for Reconstruction and Development (EBRD) are given alongside.

Interested exporters need to contact the concerned Executing Agencies to pursue the business opportunities. Our Multilateral Funded Projects Overseas (MFPO) team at Centre One Building, World Trade Centre Complex, Mumbai would be glad to be of help, if you keep us advised. Please contact Ms. Geeta Pruthi on Tel: 22185272 Extn: 2301.

Country/ Executing Agency	Project/ Brief Scope	Loan from Funding Agency
<b>Samoa/</b> Ministry of Posts and Telecommunications, Samoa Comm. Ltd., Treasury Department, Government of Samoa, Private Bag, Apia, Samoa Tel: (685) 34324, 22984 Fax: (685) 21312, 24779 E-mail: hinauri@samoa.ws Contact: Hinauri Petana, Financial Secretary	<b>Telecommunications and Postal Sector Reform Project/</b> The objective of the project is to assist Samoa in improving the performance of its telecommunications and postal sector.	World Bank US\$ 4.5 mn
<b>Nigeria/</b> Lagos Metropolitan Area Transport Authority (LAMATA), Lagos Urban Transport Project Preparation Office (LUTPO), Alausa, PMB 1613, Ikeja, Nigeria Tel: (234-1) 773-3780 E-mail: lutpo@yahoo.co.uk Contact: Dr. Anthony Mobereola, Special Assistant to the Governor	<b>Lagos Urban Transport Project/</b> The project aims to improve the Nigerian Government's capacity to manage the transport sector in the Lagos Metropolitan Area and to enhance the efficiency of the public transport network.	World Bank US\$ 100 mn
<b>FYR Macedonia/</b> Ministry of Transport and Communications, Crvena Skopska Opstina, 4, 1000 Skopje, FYR Macedonia Tel: (389-2) 145 425 Fax: (389-2) 118 144 Contact: Vasko Popovski	<b>Municipal and Environmental Action Programme/</b> The project aims to construct, rehabilitate and extend water and wastewater infrastructure operated by five Macedonian water utilities.	European Bank for Reconstruction and Development US\$ 22.1 mn
<b>Albania/</b> EBRD Contact Tel: (44 20) 7338 6534 Fax: (44 20) 7338 7472 Email: shaulskk@ebrd.com	<b>Road Rehabilitation Project II/</b> The project aims to improve the Elbasan – Librazhd section of the national road between the Port of Durres and the FYR Macedonian border, part of the East-West Corridor.	European Bank for Reconstruction and Development US\$ 18 mn
<b>Mongolia/</b> Bank of Mongolia (Central Bank), Commerce Street-6, Ulaanbaatar-11 Tel: (976-1) 322166 Fax: (976-1) 326252 E-mail: junenbat@magicnet.mn Contact: Mr. J. Unenbat, Governor	<b>Second Health Sector Development Project/</b> The objectives of the project include (i) strengthening of health sector reforms developed under Health Sector Development Project I; (ii) improving quality of health services; (iii) improving access to and utilization of health sector by the vulnerable groups and the poor.	Asian Development Bank US\$ 14 mn



Country/ Executing Agency	Project/ Brief Scope	Loan from Funding Agency
<b>Lao People's Democratic Republic/</b> Ministry of Communication, Transport, Posts and Construction, Vientiane, Lao PDR Tel: (856-21) 416-322 Fax: (856-21) 412-250 Contact: Mr. Khamlouat Sidlakone, Vice Minister	<b>Small Towns Development Sector Project/</b> The objectives of the project are to (i) improve the living conditions of the small towns' communities, especially the poor, by improving the urban environment, increasing access to essential urban infrastructure and services, and enhancing livelihoods; and (ii) support the establishment and development of decentralized and dedicated institutional and management frameworks for effective, responsive, and sustainable provision of urban infrastructure and services in small towns.	Asian Development Bank US\$ 16 mn
<b>Ethiopia/</b> Ministry of Water Resources, Addis Ababa AfDB Contact: Mr. A.D. Mtegha, Director, Country Operations: Projects financed by the African Development Fund	<b>Harar Water Supply and Sanitation Project/</b> The project comprises: (i) Water supply production and transmission; (ii) Water distribution; (iii) Sanitation; (iv) Public education; (v) Institutional Support to Harar Town Water Supply and Sewerage Services; and (vi) Technical assistance in construction supervision and projects audits.	African Development Bank US\$ 27.8 mn
<b>Ghana/</b> Ministry of Lands and Forestry, Box M212, Accra Tel: (233-21) 665-421 Fax: (233-21) 666-801 E-mail: guysymes@mlf.africaonline.com.gh AfDB Contact: Mr. G. Taylors-Lewis, Director, Country Operations: West	<b>Community Forestry Plantation Management Project/</b> The project will have the following components: (a) plantation development; (b) alternative livelihood support scheme; (c) institutional capacity building and strengthening; (d) project management.	African Development Bank US\$ 8.8 mn

## CONTRACT AWARDS

Select contracts secured by Indian companies during the quarter:

Shapoorji Pallonji & Co. Ltd., Mumbai	Contract for reconstruction of Kabul Serena Hotel, secured in <b>Afghanistan</b> , funded by <b>Aga Khan Fund for Economic Development</b> .
Mohan Exports (India) Pvt. Ltd., New Delhi	Contract for supply of overhead conductors for Emergency Infrastructure Reconstruction Project, secured in <b>Afghanistan</b> , funded by <b>World Bank</b> .
Pennar Industries Limited, Hyderabad	Contract for supply of structural steel materials & frames for Basic and Primary Education Project, secured in <b>Nepal</b> , funded by <b>World Bank</b> .
Auro Avenida Exports Pvt. Ltd., Hyderabad	Contract for supply of laboratory chemical reagents for Rural Infrastructure Rehabilitation Project, secured in <b>Tajikistan</b> , funded by <b>World Bank</b> .
Serum Institute of India Limited, Pune	Contract for supply of measles vaccine for Health Project, secured in <b>Turkey</b> , funded by <b>World Bank</b> .
Strides Arcolab Limited, Bangalore	Contract for supply of TB drugs for HIV / AIDS Control Project, secured in <b>Uganda</b> , funded by <b>World Bank</b> .
Bharat Heavy Electricals Limited, New Delhi	Turnkey contract for Baiji Power Station Project, secured in <b>Iraq</b> , under <b>United Nations Oil-for-Food Programme</b> .
KEC International Limited, Mumbai	Turnkey contract for Transmission Lines Project, secured in <b>Algeria</b> .
Petron Engineering Construction Ltd., Mumbai	Consultancy contract for Cement Plant Erection secured in <b>Nigeria</b> .
Progressive Constructions Ltd., Hyderabad	Contract for construction of Hali Dam, secured in <b>Saudi Arabia</b> .

## Task Force on Project Exports

Indian project exporters - consultants, suppliers and civil construction & turnkey contractors - have successfully implemented projects in a variety of sectors and in diversified markets overseas. Indian companies have demonstrated capabilities to execute successfully a range of projects in challenging environments. However, only a relatively small number of Indian project exporters are securing contracts, and that too in few destinations.

A Task Force on Project Exports was constituted by the Prime Minister's Office to address issues related to project exports, and facilitate the creation of an enabling environment that would lead to a quantum increase in project exports.

### Members of the Task Force

- Shri G.S. Dutt, Joint Secretary, Ministry of Finance – **Chairman**
- Department of Commerce, Ministry of Commerce & Industry
- Department of Expenditure, Ministry of Finance
- Department of Revenue, Ministry of Finance
- Ministry of External Affairs
- Prime Minister's Office
- The Associated Chambers of Commerce & Industry of India
- Confederation of Indian Industry
- Federation of Indian Chambers of Commerce & Industry
- Export Credit Guarantee Corporation of India
- Export-Import Bank of India - **Secretariat**

Such an increase could be achieved if constraints faced by Indian companies are addressed by:

- increased institutional support, including a more pro-active role by Indian missions;
- availability of more competitive credit and insurance terms over extended periods;
- enhanced brand image of India as a Project Exporter;
- need for Indian consultants to have enhanced presence in thrust markets at early stages of the planning process;
- industry/ industry associations adopting innovative approaches;

The Task Force has since submitted its wide ranging recommendations to the Prime Minister's Office. These recommendations include:

- **Constitution of High Level Standing Committee on Project Exports** to address issues related to projects which need special attention. The Committee will also deal with wide ranging issues requiring high level intervention, including special dispensations and taxation, to ensure timely and adequate response so as to facilitate project exports. The Committee will be chaired by Secretary, Ministry of Commerce & Industry (MOC) with representatives from Ministry of Finance, MOC, Ministry of External Affairs, Reserve

Bank of India, Exim Bank and Export Credit Guarantee Corporation of India (ECGC).

- **Establishment of Coordinating Agency**

Establishment of a 'Project Exports Promotion Council' (PEPC), which will act as an apex organisation for enhancing project exports. This will be an autonomous body to create an effective synergy among Indian Missions, GOI, RBI, Exim Bank, ECGC, Industry Associations and Commercial Banks to ensure early identification of projects, intelligence collection, effective information dissemination. Exim Bank would play a key role in setting up such an Agency.

- **Target Multilateral Agency Funded Projects**

- Projects funded by agencies such as the World Bank, Asian Development Bank, African Development Bank present attractive business opportunities for Indian project exporters. A strategic coordinated approach would improve prospects of Indian companies securing an increased share in this attractive segment.
- India needs to become a member of regional development institutions like the Inter-American Development Bank, European Bank for Reconstruction and Development, Central American Bank for Economic Integration, Caribbean Development Bank, West African Development Bank, PTA Bank.

- **Capacity Building of Indian Missions**

Project Facilitation Cells (PFC) may be set up in Indian Missions to support project exports through pro-active measures. The cell would coordinate closely with PEPC to ensure timely and effective intervention aimed at identifying and exploiting opportunities, through information sharing, submission of bids and their follow-up through advocacy.



Select Contracts Secured By Indian Companies during 2001-2002	
CONTRACTS	COUNTRY
<b>TURNKEY CONTRACTS</b> Refinery dismantling project Transmission Line Project Supply and erection of gas turbine generators for power projects Electro-mechanical work for an air force base project Heating, ventilation and air-conditioning work for Queen Mary ship Telecom Network Project	Netherlands Oman and Algeria Iraq and Australia  Qatar France  Saudi Arabia
<b>CONSTRUCTION CONTRACTS</b> Road rehabilitation and rail overbridge project Steel water storage tanks and transportation project	Bangladesh UAE
<b>SUPPLY CONTRACTS</b> Export of coated steel pipes Ferro-chrome manufacturing equipment Stainless steel slabs Welded steel pipes	Germany Iran USA Nigeria
<b>CONSULTANCY CONTRACTS</b> Operation and maintenance of cement plant Modernisation of petroleum refining plant Managing contract for a petrochemical company Road improvement and maintenance project Maintenance of locomotives Study of privatisation of a regional development bank	Saudi Arabia Kuwait Iran Bangladesh Malaysia Uganda

GOI. EDF can be used to support such transactions which is considered necessary by GOI as a matter of priority in the interests of the international trade of the country.

- The shortfall in export credit by commercial banks may be deposited with Exim Bank at Bank Rate on medium/long term basis. Exim Bank may swap these rupee funds with GOI for dollar resources.
- The foreign exchange reserves held by RBI can also be deployed for the purpose.
- Exim Bank's equity base may be strengthened.
- GOI may support Exim Bank through an Interest Equalisation Scheme.
- Exim Bank, as an agent of GOI, could operate the Lines of Credit (LOCs) extended by GOI to overseas governments. This will create synergy between Exim Bank's current operations to support project exports and GOI objectives.

**❑ Strengthening of ECGC**

- Government should extend support to ECGC to provide service in the same manner as a project exporter in a competing country would be getting from his export credit insurance provider.
- Strengthening of equity base of ECGC.
- Support to enable ECGC to cover high value project risks without the need of reinsurance.
- In the absence of reinsurance, ECGC should be in a position to draw support from the Government National Interest Account, or even to operate the cover on behalf of the Government.
- The underwriting of risks may be

done on behalf of and to the account of Government.

- The proposal regarding National Interest Account as is prevalent in other countries like UK, Australia, Republic of Korea should be implemented.

**❑ Strengthening of Exim Bank**

- Exim Bank may be made available funds of the order of US\$ 2 billion per year for the next six years to enable them to support projects, especially large valued ones, on more competitive credit terms and with extended periods of repayment. Export Development Fund (EDF) could be a vehicle to implement it.
- Exim Bank, under its Act, is to administer the EDF on behalf of

**Terms of Reference**

- ❖ Analysis of performance of India's project exports
- ❖ Identification of Issues/constraints faced
- ❖ Benchmarking against international practices
  - ❑ Export credit agencies
  - ❑ Trade promotion agencies
- ❖ Recommendations to achieve quantum increase in project exports
  - ❑ Policy
  - ❑ Procedure
  - ❑ Institution
- ❖ Time frame for implementation of recommendations
  - ❑ Short term
  - ❑ Medium term
  - ❑ Long term

## Success Story: Matrix Laboratories Limited

Matrix Laboratories Limited (MLL), Secunderabad, formerly known as Herren Drugs and Pharmaceuticals Limited, is a public limited company engaged in manufacture of Active Pharmaceutical Ingredients. Established in 1984, the Company was mainly engaged in manufacture of low value-high volume bulk drugs like Ibuprofene and Nimesulide. The product profile of the Company characterised low technology and shrinking margins. In May 2000, MLL was taken over by a new management and the fortune of the Company witnessed a phenomenal turnaround. The new management led by Mr. N. Prasad and Mr. M. Ravinder altered the product mix of the Company from low value-high volume to high value-low volume bulk drugs with emphasis on value added products such as COX-2 Inhibitors, anti-AIDS drugs and anti-depressants. MLL is managed by a team of technocrats and professionals having varied experience in the industry under the stewardship of Mr. N. Prasad, Chairman. MLL also shifted its focus to regulated and semi-regulated markets. MLL's manufacturing

facilities are located at Jeedimetla and Kazipally in Andhra Pradesh.

MLL is the sole Indian Supplier of Citalopram, an anti-depressant drug, to Alfred E Tieffenbacher (AET), Germany who has filed the formulation dossier. AET in turn supplies the bulk active substance to large MNC pharma companies. Lundbeck of Denmark is the current patent holder for Citalopram in the US market and has patented many processes for the product. However, MLL has been successful in developing a unique non-infringing process for the product. In order to secure an absolute monopoly in the European market, Lundbeck gave an offer to MLL for dropping Citalopram from its product portfolio which was rejected by MLL owing to the long term potential of the product and its prior commitments to generic pharmaceutical companies in Europe. The product profile of MLL includes other high margin products like Nevirapine (anti-AIDS), Montelukast (anti-asthma), Nelfinavir (anti-viral) and Gatifloxacin (antibiotic). MLL has dedicated an entire new production block for manufacture of anti-depressant drugs. Anti-depressants market is currently estimated at USD 10 bn. and is expected to increase to USD 18 bn. by 2005.

MLL has registered an impressive growth record over the last three years with its sales registering a CAGR of 62% from Rs. 39 crores in 1999-2000 to Rs. 102 crores in 2001-02. The company recorded net profit of Rs. 7 crores for the year 2001-2002 as against a loss of Rs. 9 crores during 1999-2000 reflecting positive financial impact of change in management on the Company since May 2000. Exports of the Company have increased from Rs. 0.50 crores to Rs. 21 crores over the last three years. MLL's export destinations cover more than 35 countries with highest exports to

Germany. During the current financial year, MLL has achieved a quantum jump in its level of operations recording turnover of Rs. 184 crores, exports of Rs. 136 crores and net profit of Rs. 77 crores during the nine months period ended 31/12/2002. With a view to achieve operational, financial and marketing synergies, MLL has plans to merge Medicorp Technologies Limited and Vorin Laboratories Limited with MLL. Medicorp Technologies Limited is an ISO 9001 certified company and has received various quality certifications including GMP (WHO), MCA (UK), TGA (Australia) and USFDA. The manufacturing facility of Vorin Laboratories Limited is also ISO 9002 certified and GMP (WHO) approved. The proposed merger would facilitate Company's strategy to focus on high value-low volume products, world class production and R&D facilities, broad basing of clientele, developing cost effective processes and tying up for contract manufacturing with innovator companies.

With a view to improve its export competitiveness, MLL embarked upon an expansion cum modernisation project at its existing facilities at Jeedimetla at a cost of Rs. 18 crores which was part financed by way of term loan of Rs. 12 crores provided by Exim Bank. The company completed the project in record time without any time or cost overrun because of timely financial support from Exim Bank. This project enabled the company to increase its turnover including exports.

The company also has plans for modernising cum upgradation of its facilities at Kazipally besides improving the facilities further in Jeedimetla and Medicorp's unit at Pashamylaram.

## Recent Developments in India's External Sector

Positive developments in India's external sector have been the highlights of the Indian economy in recent years.

These developments encompass, *inter alia*, surge in foreign trade, emergence of surplus on the current account, and significant build up of foreign exchange reserves.

Reflecting global economic recovery, albeit lower than initially expected, anticipated rise in international commodity prices and recovery in domestic manufacturing sector, India exports have registered robust rise during 2002-03, after a contraction during the previous year. During April-January 2002-03, merchandise exports registered a rise of 17.38 per cent, to US\$ 42.17 bn, higher than the level of US\$ 35.92 bn during the comparable period of the previous year. At the same time, software exports which are not included under merchandise exports, rose from US\$ 7.8 billion in 2001-02 to an estimated US\$ 9.6 billion during 2002-03. Underlying the buoyancy in export performance has been robust export growth registered by gems and jewellery,

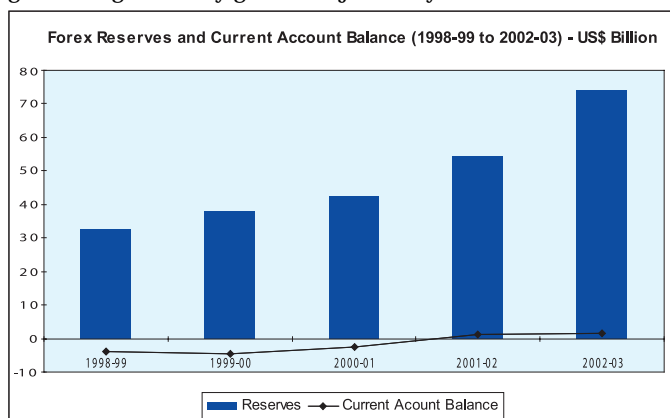
crude and petroleum products, cereals, engineering goods, chemicals and related products, ores and minerals, and leather and manufactures.

As regards imports, reflecting recovery in manufacturing activity, non-oil imports rose by 13.62 per cent during April-January 2002-03 to amount to US\$ 34.99 billion, while oil imports rose by 22.02 per cent to US\$ 14.35 billion, mainly due to rise in international crude prices. As a result, overall imports registered a rise of 15.94 per cent during April-January 2002-03 to reach US\$ 49.34 bn, from US\$ 42.55 bn during the comparable period of the previous year. Sharp rise in imports of pearls, precious and semi-precious stones, capital goods, electronic goods, and edible oils have contributed to the pick up in non-oil imports during the year.

Buoyancy in invisibles flow, due primarily to increased private transfers (remittances) and strong growth of software exports, have resulted in a surplus on the current account balance, which amounted to US\$ 1.35 billion in 2001-02, or 0.3 per cent of GDP in 2001-02, after a gap of 24 years. Continued strong invisibles flows during 2002-03 have resulted in a current account surplus of US\$ 1.67 billion during April-September 2002.

Reflecting the surplus on current account, non-debt creating inflows and valuation gains, India's foreign exchange reserves have witnessed significant accretion since 2001-02. As a

result, India's total foreign exchange reserves increased from US\$ 42.28 billion at end-March 2001 to US\$ 54.11 billion at end-March 2002, and further to US\$ 73.9 billion as on March 14, 2003. The current level of reserves is sufficient to provide cover for more than a year's imports.



Figures for 2002-03: Current Account Balance — April-September 2002; Forex Reserves - as on March 14, 2003.

## Exim Bank's Study on "Transaction Costs of Indian Exports: A Review"

Exim Bank's Working Paper on "Transaction Costs of Indian Exports: A Review" assesses the impact of transaction costs in India's exports, which arise from various procedural complexities associated with administrative processes, availability of finance and transportation problems. To assess the impact of transaction costs of India's exports, Exim Bank had conducted a study in 1998 on "Transaction Costs of Indian Exports: An Analysis", which led to the setting up of High Powered Committee on Transaction Costs of Indian Exports in 1999.

The current study, an update of the study conducted in 1998, is based on a sample survey of 82 firms, mostly small and medium units, spread across more than 10 sectors. Based on the perception of the exporters in each sector selected, transaction costs have been expressed as a percentage of export revenue, which in turn reflect the revenue foregone due to the presence of such transaction costs. The Study has served as input to the Task Force on Indirect Taxes set up by the Government of India in 2002.

The study highlights that transaction costs have reduced, although they still continue to impose significant costs in certain sectors particularly in textiles/garments and pharmaceuticals. In the textiles/garments sector, transaction costs are estimated to be in the range of 3-8% of exports revenue, as compared with the earlier estimate of 15%, while in the pharmaceuticals sector transaction costs are around 8% of exports revenue, as compared to 10% estimated earlier, with delays in getting various refunds constituting the major costs for exporters. Reductions in transaction costs have also been observed in case of engineering goods, chemicals, computer software and agro-industries.



## Export Competitiveness in Agriculture

The agricultural sector is a significant contributor to the GDP of the developing countries and continues to be the primary source of employment. Though trade in agricultural commodities is less in value terms than manufactured goods, agricultural exports are important source of foreign exchange for the developing countries. The low and middle-income countries are in fact, net exporters of food and agricultural raw materials with respect to the high-income OECD countries. Export competitiveness in agriculture is therefore, imperative for better growth performance of the developing countries. However, international trade in agriculture is characterised by a high level of support measures provided by the industrial countries. High tariffs, export subsidies, production subsidies and direct income support, all contribute towards depressing world prices of agricultural commodities, and act adversely to the interest of the developing countries. A higher degree of support generates higher exports, and as world market supply increases, international food prices are driven down. Also, agricultural support encourages domestic production, resulting in a resource allocation away from more productive activities.

According to an IMF estimate, which has used a general equilibrium model for assessing the size of the static gains from

eliminating inefficiencies caused by distorted agricultural prices, multilateral liberalisation in agriculture could result in a rise in welfare to the tune of 0.44% of global GDP. For industrial nations, income is estimated to rise by 0.43% of their GDP, while the same for developing countries is estimated at 0.51% of their GDP. The benefits would further improve considering the probable dynamic gains that can arise out of new technologies, higher investments and higher productivity growth.

The nature and degree of support provided to the agriculture sector varies across countries. In general, around two-third of the support can be identified to be price based, i.e. in the form of tariffs and export subsidies. The European Union is a major user of export subsidies, while Japan puts a check on agricultural imports through high tariffs. The United States relies particularly on production subsidies.

The Agreement on Agriculture (AoA) of the WTO lists out the export subsidy practices, which are prevalent in the agriculture sector. The developed countries are required to reduce over a period of six years, the base period volume of subsidised exports by 21% and the corresponding value of subsidies by 36%. In case of developing countries, the same are 14% and 24% respectively, but over a period of 10 years. The special and differential treatment provision of the Agreement, also, allows developing countries to grant marketing and international transport subsidies. However, the AoA has not been successful in correcting the trade distorting policies maintained by the high-income OECD countries. Commodities like wheat, coarse grains, oilseeds, vegetable oil, sugar, dairy products and fruit and vegetables, the major agricultural produce of the developing countries, continue to have a high incidence of export subsidies.

India is the largest producer of milk in

the world, second largest producer of food, fruits and vegetables, fifth largest producer of poultry products and sixth largest producer of fish in the world. Being highly resourceful, India has significant potential to gain from agricultural trade. Accordingly, India has remained vocal in multilateral level discussions for facilitating international trade in agriculture. Many WTO members practice shifting of export subsidies between products from year to year with a view to target a specific set of commodities. Members also roll over unused subsidies to the following year, which results in a cumulative depressive effect on prices, thus eroding the competitive advantage of other exporting countries. India has expressed the immediate need to formulate effective measures to prevent this practice of rolling over of subsidies. India has also called for the inclusion of all forms of export subsidisation schemes including export credit, guarantees, price discounts and insurance programmes under export subsidy reduction commitments of the AoA. Moreover, India has recognised the importance of a greater transparency in the provision for food aid.

The average level of global agricultural support has declined from 38% in 1986-88 to 31% in 1999-01. The Common Agricultural Policy (CAP) of the European Union has proposed to reduce the share of price-based support; similarly, there has been initiatives in the US to eliminate all kinds of export subsidies. These are welcome reductions in the size and composition of industrial country agricultural support and would contribute towards ensuring a level playing field in agricultural trade. However, the competitiveness of the developing countries rests on the success of their combined efforts in convincing the developed countries to acknowledge the existing price distortions and take remedial measures.

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## Exim Bank Extends Largest Credit Line of US\$ 200 Million to Iran

Export-Import Bank of India (Exim Bank) has extended the largest ever Line of Credit (LOC) of US\$ 200 million to Iran, to finance India's exports to that country. The Agreement was signed in New Delhi on January 25, 2003 by Mr. T. C. Venkat Subramanian, Managing Director and CEO, Exim Bank and by the representatives of seven Iranian commercial banks, in the presence of Prime Minister of India, Mr. Atal Behari Vajpayee and the visiting President of Iran, Mr. H.S.M. Khatami.

Under the LOC, Iranian importers will make advance/down payment of 15% of contract value and credit will be provided by Exim Bank for 85% of contract value, to the concerned Iranian bank. The Facility can be used by any of the seven Iranian banks, namely, Bank Mellat, Bank Melli Iran, Bank Sepah, Bank Saderat Iran, Bank Tejarat, Bank of Industry & Mine, and Export Development Bank of Iran. Credit period will be up to 8 years.

India's exports to Iran rose by 13.5% to US\$ 252 million in 2001-02 from US\$ 222 million in 2000-01. A number of Indian companies are engaged in negotiations with their Iranian counterparts for export of Indian equipment and technology to Iran, in sectors such as power, railways, ports, hydrocarbons, automobiles, cement and pharmaceuticals. India's exports to Iran are expected to receive a quantum jump with the establishment of this medium term LOC to Iran by Exim Bank.

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## Exim Bank Extends US\$ 5 Million Credit Line to Sri Lanka

Export-Import Bank of India (Exim Bank) and Hatton National Bank (HNB) Ltd., Sri Lanka, signed an Agreement in Mumbai, on February 12, 2003, for a Line of Credit (LOC) of US\$ 5 million from Exim Bank to HNB, to support India's exports to Sri Lanka.

Under the LOC, importers based in Sri Lanka, will make advance payment of 10 % of contract value and credit will be provided by Exim Bank for 90% of contract value to HNB. Exim Bank will reimburse Indian exporters on shipment of goods. Credit period will be upto 5 years.

HNB, established in 1988, is the largest private sector commercial bank in Sri Lanka, with total assets amounting to over a billion US Dollars. The Bank, together with its subsidiaries and associate companies, offers a comprehensive range of financial products and services, ranging from general banking, development financing, mortgage financing, lease financing, investment banking, corporate banking, dealing in government securities, stock broking, insurance services and credit card facilities.

India's exports to Sri Lanka amounted to US\$ 630.48 million during the year 2001-2002. Potential areas that Indian exporters can focus on are vehicles, electrical machinery and equipment, consumer durables, sugar, wheat, edible products of animal origin, cereals, staple fibre, marine products, apparel and precious metals. There also exists good potential for setting up joint ventures in Sri Lanka in sectors like textiles, ceramics, gems & jewellery, electronics, IT, rubber, tea, coconut, horticulture and marine products.

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## Exim Bank Extends US\$ 2 Million Credit Line to Philippines

Export-Import Bank of India (Exim Bank) and Trade & Investment Development Corporation of the Philippines (TIDCORP), Philippines, signed an Agreement in Manila, on Friday, March 7, 2003, for a Line of Credit (LOC) of US\$ 2 million from Exim Bank to TIDCORP, to support India's exports to Philippines.

Under the LOC, importers based in Philippines, will make advance payment of 10 % of contract value and credit will be provided by Exim Bank for 90% of contract value to TIDCORP. Exim Bank will reimburse Indian exporters on shipment of goods. Credit period will be upto 5 years.

TIDCORP, also called PhilExim, was established in January 1977 and is a wholly owned government financial institution attached to the Department of Finance, Government of Philippines. TIDCORP's corporate objective is to contribute to the economic development of the Philippines, as the national Export Credit Agency (ECA) and it aims at emerging as a full-fledged Exim Bank.

India's exports to Philippines amounted to US\$ 248 mn in 2001-02. Potential areas that Indian exporters can focus on are machinery and instruments, transport equipment, mineral fuels, chemicals, manufactures of metals, iron and steel manufactures, cereals and preparations and ores, slag and ash.

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**For further information on all the LOCs, please contact**

Mr. P. R. Dalal,  
General Manager,  
Telephone: (022) 22185272 Extn. 2112  
Fax: (022) 22182460  
E-mail: [prdalal@eximbankindia.com](mailto:prdalal@eximbankindia.com)

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## Ecotourism in India

Fundamentally, Ecotourism means making as little environmental impact as possible and helping to sustain the indigenous populace, thereby encouraging the preservation of wildlife and habitats when visiting a place. This is responsible form of tourism and tourism development, which encourages going back to natural products in every aspect of life. It is also the key to sustainable ecological development. The term Ecotourism was coined in 1983 by 'Hector Ceballos-Lascurian' a Mexican environmentalist, and was initially used to describe nature-based travel to relatively undisturbed areas with an emphasis on education. The concept has, however, developed into a scientific approach to the planning, management and development of sustainable tourism products and activities. In short, Ecotourism can be conceptualised as a tourism programme that is nature based, ecologically sustainable, benefiting local people and having education and interpretation as major components.

Ecotourism, as a distinct tourism product, started getting prominence in late eighties. By mid nineties, countries

such as Costa Rica, Brazil, Belize, Australia, Malaysia had developed Ecotourism destinations and evolved clear-cut policy guidelines and strategies. Several studies have been carried out with regard to Ecotourism development especially in countries such as Costa Rica, Belize. Several instances of Ecotourism turning to 'mass tourism' have been brought out by these studies and these have been considered as learning experiences. Ecotourism is now at various stages of development in different regions. In Asia, there exists wide variations in the stages of development in Ecotourism and its conceptualisation in different countries.

India, with its immense natural wealth and panoramic environs, in recognised as one of earth's biologically, wealthiest nations, offering an unparalleled ecological diversity to eco-tourists. New Ecotourism destinations under internationally accepted principles of Ecotourism are also being developed with policy support from Government of India and various State Governments. More awareness about Ecotourism among people is being created through media, seminars and workshops. Recently Ministry of Environment and Forests in connection with the World Environment Day declared that the Ecotourism in national parks, sanctuaries and other forests would be a thrust area for development.

In 1998, Ministry of Tourism, Government of India, had published Ecotourism principles and guidelines. It gives a broad picture of the Ecotourism resources, the planning for Ecotourism, role of stakeholders such as Government, tour operators, local community tourists. For Ecotourism programme, the Government of India supports State Governments in the purchase of trekking equipments, camping equipments and also helps the projects, which use the renewable energy resources. The State Governments

have continuous interactions with the various tourism related trade bodies helping them in participating in International Travel and Tourism Marts. Ecotourism lies mostly with the Government and the projects are being developed by Government and private sector support is expected by way of provision of accommodation, conduct of tour operation.

Some of the prominent ecotourism locations across India are Sunderbans (West Bengal); Sepahijala – Wildlife Sanctuary (Tripura); Yumthang (Sikkim); Plage Paradiso – Sea Beach (Pondicherry); Lohtak Lake (Manipur); Kalpeni – a blend of aqua marine sea, coconut gloves and coral reefs (Lakshadweep); Gir National Park (Gujarat); Kaziranga National Park (Assam); Thenmala (Kerala) and Chilika Lake (Orissa). Exim Bank's Desk Calendar 2003 captures, such beautiful, yet untapped, ecotourism locations across India.

Today, the "Green Laws" of conservation are making people aware of how man and the environment can live symbiotically for more time to come, and Ecotourism is the only way to maximize the economic, environmental and social benefits of tourism. Everyone is a stakeholder in the process and we clearly need to avoid our past shortcomings and negative impact that they have had. In India, too, the movement is gathering momentum with more and more travel and travel related organisations addressing the needs of the eco-tourists and promoting ecotourism in the country. The United Nations had designated 2002 as the "International Year of Ecotourism" and rightly so. Today only highly responsible tourism will help the world preserve and sustain its environmental and cultural heritage.

## EXIMIUS CENTRE COLUMN

In the first quarter of 2003, The Centre organised the following programmes :

The first programme was a seminar jointly sponsored by Exim Bank and Global Trade Finance Pvt. Ltd. (GTF) on 'Ease Export-A seminar on Export Financing and Risk Mitigation' in Mumbai. The keynote address was delivered by Mr. Jeroen Kohnstamm, Secretary General of Factors Chain International, Amsterdam.

The second programme was a Workshop on 'Software Quality-CMM Standards' conducted at the Centre, with faculty support from Mr. K.K. Raman, Associate Director and Mr. D. Sankararaman, Manager, KPMG, Bangalore.

The third programme was a Workshop on 'Price Risk Management & Securitisation for Agri Enterprises' organised at the Centre. Dr. Damodaran, Professor, Indian Institute of Plantation Management, Bangalore addressed the participants.

The fourth programme was a workshop on 'Certification & Marking Requirements for Export of Electronics, Electrical and Engineering products to Developed Country Markets' organised at the Centre. Mr. V. Ramesh, Group Leader, Conformity Assessment Service, addressed the workshop.

The fifth programme was a Workshop on 'The Status of Information & Communication Technology (ICT) Sector in Canada and its opportunities for Indian Companies' organised at the Centre. The Workshop was addressed by Mr. Keith Parsonage, Director General, Information & Communication Technology Branch, Industry, Canada; Mr. Peter Nesbitt, Manager, Scotia Bank; Mr. Doug Paterson, Consul & Senior Trade Commissioner, Consulate of Canada, Mumbai; Mr. Zulfi Sadique, Commercial Counsellor, Canadian High Commission, New Delhi & Mr. D.P. Vittal, Advisor-Trade, Canada Trade Office, Bangalore.

The sixth programme was a Workshop on 'Developing New Business Opportunities in Central/East Europe and in the CIS Countries – Partnership India and EBRD' jointly conducted by Exim Bank and European Bank for Reconstruction and Development (EBRD), in Mumbai. The Workshop was addressed by Mr. T.C. Venkat Subramanian, Managing Director, Exim Bank, Mr. Bruno Balvanera, Head, Business Development and Mr. Georgi Orlov, Principal Banker, EBRD.

A similar Workshop was held in New Delhi. The Workshop was addressed by Mr. Bruno Balvanera, Head, Business Development and Ms. Nandita Parshad, Senior Banker, EBRD.

An Informative Workshop was conducted in Mumbai by Exim Bank in association with Centre for Promotion of Imports from Developing Countries (CBI) on 'Export Marketing and Sourcing Programme for Fine and Speciality Chemicals.' The workshop was addressed by Mr. T.C. Venkat Subramanian, Managing Director, Exim Bank. A similar workshop was held in Ahmedabad which was addressed by Mr. K. Shamjee, Dy. Director, Small Industries Service Institute, Ministry of Small Scale Industries, Ahmedabad.

A workshop on 'WTO Implications on Indian Industry' was held at the Centre. The workshop was addressed by Mr. R. Srinivasan, Advisor, Economic Division, Ministry of Commerce, New Delhi.

The Calendar of programmes for the next quarter include workshops/seminars on 1) Intellectual Property Law; 2) Garment Export Strategy from India; 3) Food Safety & the New International Quality Standards; 4) Tax Strategies for Setting up an Overseas Entity; 5) Marketing of Indian Products and Services in Australia; and 6) Scope for promotion of IT Sector in Europe.

The Centre welcomes suggestions on its future agenda.

## BOOK REVIEW

### Globalisation and its Discontents: Joseph Stiglitz

In his book, Joseph Stiglitz argues that the West – acting through the International Monetary Fund and World Trade Organisation – has mismanaged the process of privatisation, liberalisation and stabilisation, and that by following its advice many Third World Countries and former Communist states are actually worse off now than they were before. A statement like this from a former Chief Economist at the World Bank and former Chairman of President Clinton's Council of Economic Advisors is surprising and challenging.

Stiglitz says that that globalisation has had devastating effects on developing countries, and especially the poor within those countries. He believes that globalisation – the removal of barriers to free trade and the closer integration of national economies – can be a force for good and that it has the potential to enrich everyone in the world, particularly the poor. But he adds that the way globalisation has been managed, it needs to be radically rethought.

Democratic governments should have the autonomy to decide on the pace at which they engage with globalisation. They cannot be told by global capital or institutions like the International Monetary Fund (IMF) about what to do. The core argument in the book is that for globalisation to work effectively it should be a "managed" process in which democratic governments exercise more power than the IMF or global capital markets.

# COUNTRY SCAN

## Sri Lanka

Sri Lanka's economy grew by 3.2% in 2002 compared to a negative growth of 1.4% in 2001 due to the resurgence of

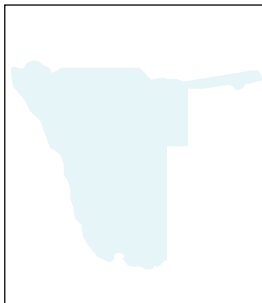


the services sector. Services sector dominates the economy, which accounted for 52.4% of the nation's GDP in 2001. The privatisation

programme has been boosted by the successful sale of 12% of the government's shareholding in Sri Lanka Telecom (SLT) in December 2002. The government is also contemplating the divestiture of its giant trading company, the Co-operative Wholesale Establishment (CWE), which is the country's largest trading organisation importing and marketing essential food commodities, agricultural produce and other consumer goods. Asian Development Bank (AsDB) approved six loans for four projects totaling US\$ 146 million in 2001 for Colombo Port's increased efficiency and expansion, North East community's restoration and development, Southern Province's rural economic advancement, and development of an SME sector program. AsDB also approved nine technical assistance grants totaling US\$ 4.1 million. Sri Lanka received US\$ 15 million credit approved by the World Bank in December 2002 aimed at economic reform.

## Namibia

The mining and quarrying industry accounted for 14.3% of GDP in 2001. Diamonds are the principal exports of Namibia accounting for more than half of its exports. Diamond production has recovered strongly due to increase in offshore recoveries by the Namibian Minerals Corporation (Namco). Namibia want to be classified



as a Least Developed Country (LDC) in order to get concessional loans from World Bank's International Development Association (IDA). Namibia will continue to receive a substantial flow of aid from the European Union (EU) under National Indicative Programme (NIP) covering 2001-07, which provides disbursements upto US\$ 88 million from the ninth European Development Fund (EDF). Current World Bank involvement in Namibia focuses on providing technical assistance to support the government's efforts to reduce poverty and address HIV/AIDS, build local capacity, and enhance management of natural resources. There are no IBRD loans to Namibia. IFC commitments to Namibia total US\$ 11 million.

## Poland

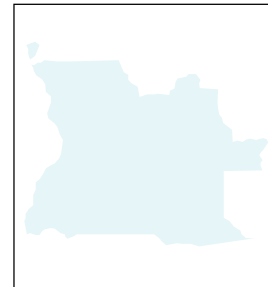
Poland launched its first Eurobond on the British market, with a US\$ 250 mn bond. There was a surge in the net portfolio investment in 2002, which saw a successful US\$ 1 bn issue of ten-year Eurobonds on the US market. The FDI slowdown continues due to the depressed economic conditions and slow pace of privatisation. Although trade adjustment has already taken place with the European Union (EU), full EU membership will foster trade in agriculture and foodstuffs. Both investment and trade will be boosted by Poland's access to EU structural funds for the improvement of physical and social infrastructure. Since 1990, the International Bank for Reconstruction and Development (IBRD) has committed US\$ 5.4 billion for 37 operations.



## Angola

Oil sector dominates the economy, followed by mining, services, agriculture and manufacturing. Oil output is expected to lift the real rate of GDP growth to 6% in 2003 and 6.2% in 2004 as the economic expansion is directly dependent on oil production. The Africa Oil Policy Initiative Group (AOPIG) has noted Angola gaining in strategic importance in American energy security.

Angola assumed the presidency of Southern African Development Community (SADC). The government of Angola expects the World Bank to



support a US\$ 350 mn project. The World Bank currently has two projects in Angola, a US\$ 5 million Post-Conflict Recovery

Learning and Innovation Loan and a US\$ 33 million credit supporting a social action fund. New infrastructure contracts are emerging owing to country's post-war reconstruction and the priorities are in the field of road and rail network. Several hydroelectric projects are making progress after the establishment of peace. United Nations had pledged to rebuild the country and said that mine clearing and human assistance were top priorities but the reconstruction of non-oil and diamond sector will be a long and difficult process.

## Philippines

The services sector dominates the Philippines economy. The Special Purpose Asset Vehicles (SPAVs) bill was approved, which will facilitate transferring the bad loans to asset management companies and will encourage foreign investment in Philippines by releasing wide range of assets in which foreign buyers would be interested. AsDB approved two loans in 2001 totaling US\$ 105 million for the Mindanao Basic Urban Services Sector and Nonbank Financial Governance Program. Nine technical assistance grants were approved in 2001 totaling US\$ 7.6 million. Since 1957 the World



Bank has approved 218 loans and 9 credits for the Philippines, totaling more than US\$ 11.5 billion.

## Select Currencies

### MEXICO

The Mexican currency Peso (MXN) is independently floating. Under this arrangement the exchange rate is market determined and the intervention is aimed at moderating the fluctuation and preventing undue fluctuations. Since August 1, 1996, Banco De Mexico, the Central Bank, introduced a system for buying foreign exchange in the market, without abandoning its commitment to the floating exchange rate policy. Under this system, the central bank organised monthly auctions of options that gave financial institutions the right to sell USD to it against MXN. During November 1991-July 1996 a flexible exchange regime under which Peso fluctuated within an intervention band was adopted. The exchange rate of MXN has fluctuated from an average of MXN 7.6825 in 1995, 9.8650 in 1998 and 9.1423 in 2001 showing depreciation of 19% against USD in seven years. During the year 2002 the MXN has depreciated by 9% from 9.31 in April to 10.15 in December. Mexico's foreign currency reserves have increased from USD 16.84 bn in 1995 to USD 44.74 bn in 2001 and USD 46.77 bn in November 2002. It had positive trade

balance of USD 7 bn in 1995, which has declined gradually to USD -7.90 bn in 1998 and USD -9.90 bn in 2001. Total foreign investment has risen from USD 17.86 bn in 1997 to USD 27.77 bn in 2001 indicating economic recovery of Mexico. USA is Mexico's most important trade and investment partner contributing about 89% of exports and 68% of imports and the exchange rate movement is influenced by the events in USA. As on March 24, 2003 MXN is quoted at 10.78 per USD and is expected to hover around the same level in the current year.

### POLAND

Poland's currency Zloty (PLN) has been allowed to float freely since April 2000. Between 1991-2000 National Bank of Poland, the central bank, had adopted flexible crawling leg system within a band of (+/-) 15%. The economic transition started in 1990 and till then Poland adopted fixed exchange rate system against USD. During 1992, PLN was quoted at 1.36 per USD. Zloty was revalued on January 1, 1995, as new Zloty equal to 10,000 Pre-Jan 1995 Zlotys. The exchange rate has moved from PLN 2.47 in 1995 to 3.52 in 1998, 4.143 in 2000 and 4.15 in 2002 indicating depreciation of 68% in last 7 years and at an average of 9.72% p.a. The GDP of Poland has registered an average annual growth rate of 1.3% in 2002. It is estimated that the economy would continue to grow above 2% in 2003. The inflation rate in 2002 was at 1.90% and is forecasted to be steady at around 2%. The foreign exchange reserves have grown from USD 26.05 bn in Jan 2002 to USD 30.50 bn in Jan 2003. With the above positive indicators, Zloty has been steady against USD. As on March 24, 2003 PLN was quoted at 4.0565 and expected to be range bound in the current year.

### SRI LANKA

The currency of Sri Lanka is Rupee (LKR). LKR is valued on daily basis against a

basket of 24 international currencies and fixed at commercial banks' mid rate by Central Bank of Sri Lanka. On 20 June 2000, the Central Bank allowed the rupee to depreciate by up to 6 percent against the USD due to decline in international reserves by USD 500 million in 18 months and the resulting shortage of liquidity in the market. The foreign exchange buying rate was announced at LKR 75.60 and the selling rate at LKR 79.47. In line with the liberalization process, the Government adopted a floating exchange rate regime on January 23, 2001 due to continued losses of official reserves and to mobilize the support of International Monetary Fund (IMF). The drawal of USD 131 mn out of standby credit from IMF, helped to maintain level of reserves. Within two days, LKR slid rapidly from around 85 to 99 against USD indicating a depreciation of about 17%. However, with the intervention of the central bank, the stability of LKR was restored at around 90 levels. The foreign exchange reserves excluding gold have declined from USD 20.88 bn in 1995, USD 19.80 bn in 1998 to USD 10.39 bn in 2000 and USD 14.60 bn in 2002. LKR has been depreciating in the last 5 years by about 10% on year-to-year basis from 64.45 in 1998 to 95.66 in 2002 against USD. Since breaking through the LKR 96: USD 1 barrier in April 2002, the Lanka rupee has remained relatively stable. The absence of speculative pressure and restrained borrowing by the Government has helped decrease the pressure on the currency. LKR depreciated by an annual average of 6.6% in 2002. GDP of Sri Lanka grew by about 3.20% on year-to-year basis in 2002 and it is estimated that it will cross 5.50% in 2003. The peace initiatives and liberalisation measures are expected to boost investor confidence. The inflation was high at 9.6% in 2002 and is expected to fall to 8% in 2003. As on March 24, 2003, LKR was quoted at 96.92 per USD and is expected to depreciate further in the current year.

## Road to Cancún, Mexico – The 5<sup>th</sup> WTO Ministerial Conference

The Fifth WTO Ministerial Conference will be held in Cancún, Mexico from 10<sup>th</sup> to 14<sup>th</sup> September 2003. The main task will be to take stock of progress in negotiations under the Doha Development Agenda. The November 2001 declaration of the Fourth Ministerial Conference in Doha, Qatar, provided the mandate for negotiations on a range of subjects and other work, including issues concerning the implementation of the present agreements. The negotiations include those on agriculture and services, which began in early 2000. A number of other issues have now been added. The declaration sets January 1<sup>st</sup>, 2005 as the date for completing all but two of the negotiations. Negotiations on the Dispute Settlement Understanding are to end in May 2003 and the progress is to be reviewed at the Cancún Ministerial Conference. India still seems to retain its aura as a natural leader of the developing world at fora like the World Trade Organization, and smaller nations especially in Africa

lacking in infrastructure for the complex WTO negotiations still rely for support on India. Over a dozen African countries including Zimbabwe, Kenya, Uganda, Nigeria and Morocco have expressed the view that India should take the lead in all WTO negotiations on agriculture to build a common strategy against the flooding of farm items from advanced nations threatening their domestic agriculture. India's reputation for taking a principled stand and sticking to it has given it an enhanced status at the last two ministerial conferences and the Indian delegation has already had many requests for bilateral talks from other developing countries to finetune the negotiating approach in the run-up to Cancún.

A mini-ministerial conference of the WTO was held in Tokyo in February 2003 to facilitate international mutual understanding towards the Doha Development Agenda of the WTO, and especially toward the Ministerial Conference in Cancún. The mini-ministerial was of immense importance as it was attended by representatives from the United States, European Union, Japan, China and members from the Cairns group. It was an opportunity for developed and developing countries to have a grip on the key issues and try to present their own positions as forcefully as possible. As the WTO is all about negotiations, various blocs and groups were able to identify which of the key players could support or oppose them in what has been described as the Doha Development Agenda. India's focus in the Conference was on agriculture, trade-related intellectual property rights (TRIPs), health, and its agenda included market access-related issues covering agriculture as well as non-agricultural products and services, the four Singapore issues (viz. investment, competition, trade

facilitation and transparency in public procurement), development-related issues, rules and general discussions on the road to Cancún. India also made it clear to the developed countries, especially to the US and the European Union that the onus of removing the roadblocks to the Cancún WTO Ministerial Conference is entirely on them.

Under the Trade Policy Review Mechanism of the WTO, the trade policies of all the members are subject to periodic review. India's trade policy is subject to review every four years and in its third review in June 2002, India was complimented for its reform process. The WTO Secretariat Report on Trade Policies and Practices in India has stressed that India's efforts would be greatly enhanced by steps on the part of India's trade partners to reduce, if not remove, the impediments to India's exports, especially in the context of ongoing negotiations in the Doha work programme. India has repeatedly stated its support for the WTO and the Doha Development Agenda but considers that if further progress is to be made, the onus remains on the developed countries to keep the promises made in Doha. This view has been endorsed by many members, who look to India for leadership in these negotiations.

The news items and information published herein have been collected from various sources, which are considered to be reliable. While every care has been taken for authenticity of the material published, Exim Bank accepts no responsibility for authenticity or accuracy of such items.

Note: Indian Rupees are referred in crore and lakhs:

1 crore : 10 million

1 lakh : 100 thousand

Export-Import Bank of India, Centre One Building, Floor 21, World Trade Centre Complex, Cuffe Parade, Mumbai 400 005.  
Tel: 2218 5272 Fax: 2218 2572  
E-Mail: [eximcord@vsnl.com](mailto:eximcord@vsnl.com)

Contact Numbers: Ahmedabad: 657 6852, Bangalore: 558 5755, Chennai: 2522 4714, Guwahati: 259 9135, Hyderabad : 2330 7816, Kolkata: 2229 3416, Mumbai: 2283 0761, New Delhi: 2332 6375, Pune: 645 8599  
Budapest: (361) 338 2833, Johannesburg: (2711) 442 8010, Milan: (3902) 584 30546, Singapore: (65) 653 26464, Washington D.C.: (202) 223-3238